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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Hamtramck District, Wayne County FIA for the period October 1, 1999 through October 4, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Hamtramck District had 74 full time equated positions (FTE's) at the time of our review. Hamtramck District provided assistance to average 10,217 recipients per month during FY 1999, with total assistance payments of \$15,745,301 during that year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Hamtramck District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts

Medical Transportation

Procurement Card

Employment Support Services

Client Processing

IRS Information Security

Telephone Usage

Cash Disbursements

Safe and Controlled Documents

State Emergency Relief (SER)

Child Well Being

CIS/ASSIST

Payroll and Timekeeping

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Hamtramck District internal controls are not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found numerous instances of noncompliance with FIA policies and procedures, many of which affect the office's internal control structure. We also noted specific internal control weaknesses.

## **DISTRICT RESPONSE**

The management of the Hamtramck District has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated October 20, 2000 that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS**

### **Cash Receipts**

#### **Mail Opening**

1. Hamtramck District had two people opening the mail. Accounting Manual Item 431 requires that two people work together to open the mail. One mail clerk is to open the mail and the second mail clerk is to make a list of all monies and undelivered food coupons received in the mail. Having two people opening the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that Hamtramck District have two people work together to open the mail.

#### Daily Mail Record of Cash Receipts

2. The Hamtramck District did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the District used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 430 states that an FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that the Hamtramck District record all negotiables for deposit on the FIA-4729.

#### Open Items on FIA-61

3. Hamtramck District did not always record disposition information on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. We found three open items on the FIA-61, where the checks/warrants were not on hand and the local office had not recorded the disposition. Recording the disposition on the FIA-61 provides documentation that returned checks/warrants were disposed of properly.

WE RECOMMEND that Hamtramck District record the disposition of all checks/warrants on the FIA-61.

WE ALSO RECOMMEND that Hamtramck District determine the disposition of the three open items on the FIA-61, and take the appropriate corrective action.

#### FIA-61 Log Reconciliation

4. The Hamtramck District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-

61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61.

WE RECOMMEND that the Hamtramck District perform a weekly reconciliation of checks/warrants on hand to the FIA-61.

#### Returned Warrants

5. Hamtramck District was maintaining 6 returned state warrants on hand for periods longer than the 10 days. Accounting Manual Item 431 requires that returned warrants be voided within 10 working days. Voiding returned state warrants after 10 business days encourages immediate disposition and provides improved accountability for the warrants.

WE RECOMMEND that Hamtramck District dispose of returned state warrants within 10 business days.

#### Official Cashier Receipts

6. Hamtramck District did not record the Official Cashiers' Receipts (FIA-3681) in numerical order on the Cashier Receipts Register. Recording the receipts in numerical will help ensure that all moneys received and receipts written are accounted for.

WE RECOMMEND that Hamtramck District record the receipts issued in order on the Cash Receipts Register.

#### Receipts Not Reconciled to Receipts Register

7. Hamtramck District did not reconcile the Official Cashiers Receipts to the Cash Receipts Register for the months of June and July 2000. Accounting Manual Item 433 requires that the local office must verify that all monies received have been accounted for. Reconciling the Cashier Receipts to the Receipts Register and the monies received ensures that all have been accounted for.

WE RECOMMEND that the Hamtramck District reconcile the receipts written to the monies received.

#### Cash Disbursements

##### Sign-O-Meter Record

8. Hamtramck District did not prepare the Sign-O-Meter Record (FIA-4711), as required by Accounting Manual Item 410.1. Use of the Sign-O-Meter and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that Hamtramck District use the Sign-O-Meter record and reconcile it to the Check Register each month.

#### Stamping Documents "PAID"

9. Hamtramck District did not stamp supporting documents "PAID" when payment was made. The Accounting Manual Items related to each payment type require that supporting documents be stamped "PAID." Stamping supporting documents "PAID" helps prevent duplicate payments.

WE RECOMMEND that Hamtramck District stamp supporting documents “PAID” when payment is made.

### **Safe and Controlled Documents**

#### **Controlled Document Log**

10. Hamtramck District did not properly control Bus Tickets and Bus Transfers. We noted that the local office was not preparing the Monthly Controlled Document Inventory and Reconciliation (FIA-4351), as required by Accounting Manual Item 403. Preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of controlled documents, would be detected on a timely basis.

WE RECOMMEND that the Hamtramck District prepare the Monthly Controlled Document Inventory and Reconciliation for Bus Tickets and Transfers.

Note: Corrective action was taken while the auditor was on site.

### **Medical Transportation**

No findings in this area.

### **State Emergency Relief**

No findings in this area

### **Employment Support Services**

#### **Vehicle Purchases**

11. Hamtramck District did not have case documentation for the purchase of special clothing in one out of the 9 cases reviewed. Also, in one case two vehicles were purchased and repairs made to the first vehicle within a 2 ½ year time frame, then a



second vehicle was purchased through the Employment Support Services (ESS) Program. Program Eligibility Manual (PEM) Item 232 states that a vehicle purchase is limited to once in a client's lifetime. The district office may authorize up to \$1,200 to purchase a vehicle to be used as a participant's primary means of transportation for work or employment-related activities.

WE RECOMMEND that Hamtramck District document client eligibility for vehicle purchases through ESS program in the case files and avoid duplicate vehicle purchases.

### **Client Processing**

#### **MA-010 Reconciliation – Openings, Warrant Rewrites and Supplemental Payments**

12. Hamtramck District is not currently reconciling a sample of new case openings, warrant rewrites and supplemental payments cases listed on the MA-010 Report to the casefile documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A reconciliation of openings and warrant re-writes provides assurance that cases were opened only by their assigned workers, and payments made were accurate and appropriate.

WE RECOMMEND that Hamtramck District reconcile a sample of case openings, warrant rewrites and supplemental payments on the MA-010 Report to case file documentation.

## **CIS/ASSIST**

### **Payment Authorization Files**

13. Hamtramck District did not maintain the files of Supplemental Payment Authorizations (FIA-13) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in date order. Maintaining the FIA-13's in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's easy to retrieve if needed at a later date.

WE RECOMMEND that Hamtramck District maintain FIA-13's in either alphabetical or case number order.

### **MA-010 Reconciliation**

14. Hamtramck District did not reconcile flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System (CIS).

WE RECOMMEND that Hamtramck District reconcile the flagged transactions on the MA-010 to the input documents.

### **CIS Security Agreements**

15. Hamtramck District did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 14 of the 84 employees who access the Client Information System (CIS), as required by L-Letter 97-063. For twenty-one of the 84 agreements

we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011).

WE RECOMMEND that Hamtramck District have all employees who have access to the CIS system complete a CIS Security Agreement and that the status codes on the Security Agreement are consistent with the status code on the PF-011 report.

#### Security Officers Log Report (PD-180)

16. Hamtramck District did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. For internal control purposes the reconciler must not be the CIS Security Coordinator and someone without access to CIS.

WE RECOMMEND that Hamtramck District reconcile the PD-180 report to revised Security Agreements and that an independent person performs the reconciliation.

#### CIS/ASSIST Status Codes

17. Two fiscal clerks at the Hamtramck District had FLM and CRS status on CIS. The combination of fiscal clerk and FLM and CRS status would allow the fiscal clerk to make changes to client cases and then process payments to those cases. The two fiscal clerks identified above also had a 360 Job Type (Registration) on ASSIST. This combination would allow the fiscal clerks to register cases or programs and process case transactions without an independent review.

WE RECOMMEND that Hamtramck District change the fiscal clerks to inquiry only status on CIS.

### Missing ASSIST Enrollment Profiles and Security Agreements

18. Ten employees at Hamtramck District who had access to ASSIST did not have ASSIST Enrollment Profiles (FIA-3720), 20 employees did not have an ASSIST Security Agreements (FIA-3721) on file and, 15 employees had incomplete Enrollment Profiles missing either the Job Types or signatures as required by L-Letter 97-156. Accurate, up-to-date Enrollment Profiles and Security Agreements provide documentation that workers understand the access they have on ASSIST and the responsibility associated with that access.

WE RECOMMEND that Hamtramck District ensure that accurate, up-to-date Enrollment Profiles and Security Agreements are on file for all employees who have access to ASSIST.

### **IRS Information Security**

#### Designated Staff Person

19. Hamtramck District did not have a Designated Staff Person (DSP) or a backup DSP for handling confidential information received from the Internal Revenue Service (IRS), as required by Program Administrative Manual (PAM) Item 800. A DSP and backup are necessary to ensure that information received from the IRS is kept confidential. Breach of confidentiality could result in the department being denied access to IRS information.

WE RECOMMEND that Hamtramck District appoint a Designated Staff Person and backup to handle confidential information received from the IRS.

#### IRS Data Control Sheet

20. The Hamtramck District did not use the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) to record Unearned Income Notices (FIA-4487A) received at the District, as required by PAM Item 800. Completion of the FIA-4488 is necessary to document that the District is maintaining the confidentiality of information received from the IRS.

WE RECOMMEND that the Hamtramck District record all FIA-4487A's received on the FIA-4488.

#### Knowledge of IRS Security Procedures

21. The Hamtramck District mailroom, newly hired FIS (Family Independence Specialist) and the ES (Eligibility Specialist) staff were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Hamtramck District familiarize newly hired staff with all aspects of the confidentiality laws for information received from the IRS.

#### **Payroll and Timekeeping**

##### Payroll Reconciliation

22. The Hamtramck District did not properly reconcile the turnaround HR-332B report to the timesheets and HR-332A report as required by The Primary Internal Control Criteria for Local/District Office Operations. Reconciling the payroll the week

following the payroll input would ensure that corrections were made timely and the actual payroll accurately reflects the authorized time.

WE RECOMMEND that Hamtramck District have an employee independent of the timekeeper and certifier to reconcile the payroll with the turnaround HR-332B report.

Note: Corrective Action was taken while the auditor was on site.

#### **Procurement Card**

No findings noted in this area.

#### **Telephone Usage**

No findings noted in this area.

#### **Child Well Being**

No findings noted in this area.